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REPORT
No. 93-511

CONTRIBUTIONS TO FEDERAL EMPLOYEES HEALTH INSURANCE

NOVEMBER 15, 1973.—Ordered to be printed

Mr. McGEE, from the Committee on Post Office and Civil Service,
submitted the following

REPORT

[To accompany H.R. 9256]

The Committee on Post Office and Civil Service, to which was referred the bill (H.R. 9256) to increase the contribution of the Government to the costs of health benefits for Federal employees, and for other purposes, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

AMENDMENTS

Section 8906(b) is amended by striking out "55" and inserting "50" in line 14 and striking "1973" in line 15 and inserting "January 1, 1974" therein. Line 15 is amended by striking "semi-colon" and "60" and inserting "55". Line 16 is amended by striking "1974" and inserting "and January 1, 1975". In line 16 strike all after the semi-colon and strike all in lines 17-19 respectively.

SEC. 4. Section 8901(5) of title 5, United States Code, is amended by striking out "or such unmarried child regardless of age who is incapable of self-support because of mental or physical disability which existed before age 22;" and inserting in lieu thereof "or such an unmarried child regardless of age, who—

"(i) is a student regularly pursuing a full-time course of study or training in residence in a high school, trade school, technical or vocational institute, junior college, college, university or comparable recognized educational institution and receives more than half his support from the employee or annuitant; or

"(ii) is incapable of self-support because of mental or physical disability which existed before age 22;".

EXPLANATION OF AMENDMENTS

The purpose of the first amendment is to change the Government contribution of 55 percent commencing in 1973 to 50 percent commencing January 1, 1974. Also the 60 percent commencing in 1974 is amended to 55 percent commencing January 1, 1975. Further percentage increases have been deleted in the Senate version.

The second amendment enables employee's children who are full-time students regardless of age or who are disabled to receive coverage under the act.

PURPOSE

The purposes of H.R. 9256 are to increase the Government's contribution towards the cost of health plans authorized by the Federal Employees Health Benefits Act (5 U.S.C. 8901-8913), to include Federal employees retired prior to January 1, 1960, within the scope of the program and to raise the maximum age of children of Federal employees for coverage under the program.

STATEMENT

The Federal employees health benefits program was passed by the Congress in 1959 and made health protection available to full-time Federal employees in one of more than 35 benefit plans. These include: the Government-Wide Service Benefit Plan, the Government-Wide Indemnity Benefit Plan, Federal employee organization plans, and comprehensive medical plans of the group or individual practice prepayment type.

Employees are given an opportunity to obtain self and family protection against the cost of health care services. The Federal Employees Health Benefits Program is by far the largest voluntary group health insurance plan in existence in the United States. Health benefits coverage is available after retirement of the employee if certain conditions are met.

POSTAL WORKERS

During the recent collective-bargaining agreement signed during the summer of 1973 the approximately 680,000 postal workers received an increase to 55 percent from the present 40 percent effective January 1, 1974. Also, this contribution would further be increased to 65 percent in July of 1974. The Committee believes this further evidences the need for the Federal employee, who shares many of the same benefits such as the retirement system with postal workers, to be upgraded in health insurance contributions.

Last year H.R. 12202 was passed by both bodies of Congress but was stalled in conference over the question of whether or not postal workers health benefits were the subject within the purview of Congress or collective bargaining under the Postal Reorganization Act. The Committee, as a result of the Collective Bargaining Agreement, believes this question has been settled.

The figures below show the cost to the Government and Postal Service respectively for H.R. 9256 as amended and the recent agreement.

H.R. 9256—ALTERNATIVE PROPOSALS, INCREASE IN COST FOR NON-POSTAL EMPLOYEES

[Millions]

Fiscal year	Static	Dynamic
A. 50 percent on Jan. 1, 1974; 55 percent on Jan. 1, 1975 and later; 75 percent maximum on Jan. 1, 1974:		
1974.....	\$90.1	\$90.1
1975.....	210.9	234.8
1976.....	241.6	315.4
1977.....	241.6	370.7
1978.....	241.6	432.8
B. Postal rates: 55 percent rate on Jan. 1, 1974 with 68.75 percent maximum; 65 percent rate on July 20, 1974 with 81-25 percent maximum:		
1974.....	119.5	119.5
1975.....	361.0	392.6
1976.....	364.4	461.6
1977.....	364.4	533.7
1978.....	364.4	614.4

ANALYSIS

The contribution of the Federal Government to the employees cost of health insurance has remained at a constant 40 percent even though premium costs have skyrocketed over the past few years. The Committee believes that at least a contribution of 50 percent on the part of the Government is warranted.

H.R. 9256, as approved by the House of Representatives, would increase the Government's contribution to 55 percent of the average high-option premium beginning in 1974, with an additional increase of 5 percent yearly until the contribution reaches 75 percent in 1977 and thereafter. In the interest of economy and desire to see a bill signed into law in 1973, the Committee opts for a 50 percent contribution January 1, 1974, and a 55 percent contribution one year later.

PRE-1960 RETIREES

The bill would allow pre-1960 retirees now in the Retired Federal Employees Health Benefits Program to change to the Federal Employees Health Benefits Program. The only reason these employees are not routinely included is that the 1959 Act was enacted prospectively. Today, the Committee realizes that some pre-1960 retirees are woefully under insured. However, there are annuitants who are covered under Medicare and other employee benefit plans and a conversion to the Federal Health Benefits Program may not be necessary. The Committee urges retired employees and Federal employee unions to examine present coverage to determine the feasibility of converting or advising their members to convert to the Federal Health Benefits Program.

STUDENT CHILDREN

The legislation would extend health benefits coverage to unmarried dependent children. Under existing law, a family health benefits enrollment covers unmarried children until age 22, which in more and more cases discriminates against the child still in school until after that age. It is the consensus of the Committee that an unmarried child who pursues a full-time course of study or training in an accredited institution, and who is dependent upon an employee or

annuitant for a major part of his support, should be considered a member of the employee's or annuitant's family for health benefits purposes even though he is over 22 years of age. The amendment provides, in effect, that such coverage will continue until such time as the child marries, becomes self-sustaining, or ceases to be a full-time student.

CONTRACT DISPUTES

The Committee recommends the enactment of a new section in the provisions of title 5 relating to health insurance to authorize the Civil Service Commission to make binding decisions regarding the coverage of health insurance contracts.

Under existing law, the Commission cannot require an insurance carrier to pay a particular claim if the carrier interprets the contract not to cover such a service or supply. This provision would require the carrier to pay for or provide health benefits in individual cases where the Commission makes a determination that the covered employee, annuitant, or family member is entitled to the benefit under the terms of the contract.

SECTIONAL ANALYSIS

Section 1 changes the biweekly Government contribution for health benefits for an employee or annuitant enrolled in a health benefits plan from the present 40 percent to 50 percent for applicable pay periods commencing January 1, 1974, and from 50 percent to 55 percent for applicable pay periods commencing January 1, 1975.

Section 2 enables an annuitant who is participating or who is eligible to participate in the health benefits program offered under the Retired Federal Employees Health Benefits Act to elect coverage under the Federal program in lieu of coverage under such Act.

Section 3 inserts a new provision which would require the carrier to pay for or provide health benefits in individual cases where the Commission makes a determination that the covered employee, annuitant, or family member is entitled to the benefit under the terms of the contract.

Section 4 provides for coverage of unmarried children who are full-time students regardless of age or who are incapable of self-support because of mental or physical disability which existed before age 22.

HEARINGS

Extensive public hearings were held on this and similar bills in the 91st and 92nd Congresses. H.R. 9256 was the subject of a comprehensive hearing by the Subcommittee on Compensation and Employee Benefits on November 9, 1973.

COST

The added cost to the Government for enactment of the Senate approved bill would be \$90.1 million for fiscal year 1974 and \$117.4 million for the first half of fiscal year 1975. This would be in addition to the \$472.1 million annually which represents the fixed Government contribution (40 percent) for health protection.

These cost estimates are based on a "dynamic" cost basis which assumes actuarial increases in health services and costs, Federal employee and retiree population, and a reasonable rate of inflation.

ADMINISTRATIVE REPORTS

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., November 8, 1973.

HON. GALE W. MCGEE
*Chairman, Committee on Post Office and Civil Service, U.S. Senate,
Washington, D.C.*

DEAR MR. CHAIRMAN: Although we have not received a request, we are submitting the Commission's views on H.R. 9256, a bill to increase the contribution of Government to the costs of health benefits for Federal employees, and for other purposes.

In brief, H.R. 9256 would amend the Federal Employees Health Benefits law (5 U.S.C., ch. 89) to make the following changes:

Increase the Federal Government's contribution from 40 to 55 percent of the average high option premium of the two Government-wide plans, the two largest employee organization plans and the two largest comprehensive medical plans participating in the Federal Employees Health Benefits Program, with an additional increase of 5 percent per year until the Government contribution reaches 75 percent of the average high option premium of these selected plans; however, the Government contribution would not exceed 75 percent of the employee's or annuitant's actual subscription charge.

Allow pre-1960 retirees under the Retired Federal Employees Health Benefits Program (RFEHB) to change to the Federal Employees Health Benefits Program (FEHB).

Require a carrier participating in the Federal Employees Health Benefits Program to agree to comply with a Commission decision in a health benefits claims dispute.

SECTION 1—INCREASE IN GOVERNMENT CONTRIBUTION

In 1971, the Government's contribution was almost doubled to approximately 40 percent of premium. The Commission cannot favor a further increase in the Government contribution at a time when the Administration is trying to exercise financial restraint.

The Commission's opinion is that under present circumstances the current 40 percent contribution, with provision for maintaining it at that level in future years as premiums increase, represents an equitable sharing of the cost of health benefits with employees, especially when considered in the light of the Government's total expenditure for fringe benefits. Government expenditures for Federal employee benefits compare favorably with those of private employers although the components of the Federal and private benefits packages vary.

Government contributions to fringe benefits, as a percentage of basic payroll, will continue to rise as a result of commitments made over the past few years. For example, the added paid holiday (Columbus Day) will contribute to an increase in the percentage of Federal payroll expenditures attributable to employee benefits. Also, the requirement

that the Government's share of the health benefits premium be maintained at approximately 40 percent will increase the percentage of payroll expenditures for health benefits, assuming health costs continue to rise faster than payroll.

Federal salary rates have been raised substantially during recent years as a result of adoption of the comparability principle. As a result, the purchasing power of Federal employees, including their ability to pay higher health benefits premiums, has been maintained despite inflation.

As emphasized by the President in his 1974 budget message in which Congress was urged to join in a concerted effort to control Federal spending, there is a current urgent need to exercise fiscal restraint. In view of this need, the substantial cost of this proposal, and the reasons discussed above, the Commission strongly opposes enactment of section 1 of this bill.

The following table shows what the additional cost to the Government would be for the five fiscal years beginning July 1, 1973 if Section 1 of H.R. 9256 were in effect beginning January 1, 1974. Costs are shown on a static basis which assumes no increase in premiums or enrollment and on a dynamic basis which assumes increases in premiums and enrollment similar to those experienced in the past. Both projections include the increased contributions for the second half of Fiscal Year 1974.

ESTIMATED GOVERNMENT HEALTH BENEFITS CONTRIBUTION

[In millions]

	Static			Dynamic		
	Present law	H.R. 9256	Increase	Present law	H.R. 9256	Increase
Fiscal year:						
1974	\$266.8	\$417.6	\$150.8	\$266.8	\$417.6	\$150.8
1975	533.6	865.2	331.6	558.4	921.5	363.1
1976	533.6	923.9	390.3	607.9	1102.3	494.4
1977	533.6	976.6	443.0	659.1	1299.1	640.0
1978	533.6	1000.7	467.1	714.3	1480.8	766.5

SECTION 2—RETIREES IN THE RFEHB PROGRAM

There are approximately 210,000 pre-1960 retirees enrolled in the RFEHB Program. Some 80 percent of these retirees are over age 65 and are covered by Medicare hospital and medical insurance. They have available excellent coverage supplementary to the basic Medicare protection, either through the Government-sponsored Uniform Plan or through privately sponsored plans especially designed to supplement Medicare. The cost of many private plans supplementary to Medicare is reasonable and the Government adds \$3.50 (self only) or \$7 (self and family) to the retiree's monthly annuity check to help pay these premiums. The same contribution is made to enrollees in the Uniform Plan, and they pay only an additional \$.50 (self only) or \$1 (family) a month for the supplementary protection.

Our experience is that many older people tend to buy as much insurance as they can get and may already be overinsured. If section 2 is enacted, it is our considered opinion that a significant number of these people would switch to the FEHB Program in the mistaken

belief that they needed the additional protection and at considerably more needless cost to themselves, as well as to the Government.

Because the large majority of people enrolled in the RFEHB Program already have excellent health insurance protection at very reasonable cost, and because we believe that the option afforded by section 2 to switch to the more costly FEHB Program would cause many of them to do so contrary to their best interests, the Commission opposes enactment of section 2 of H.R. 9256.

The annual Government cost for section 2 is estimated to be about \$7.6 million, assuming that only enrollees not eligible for Medicare transfer. Because this would entail a substantial additional cost to the enrollee, we further assume that only one-fourth of those not covered by Medicare will transfer, in which case the cost would be \$1.9 million a year.

SECTION 3—HEALTH BENEFITS CLAIMS DISPUTES

We are not currently experiencing any problems in securing carriers' compliance with Commission decisions on interpretation of contract benefit provisions. However, the Commission has no objection to Section 3 and would support its enactment if it were introduced as a separate bill.

The Office of Management and Budget advises that there is no objection to the submission of this report and that enactment of H.R. 9256 would not be in accord with the program of the President.

By direction of the Commission:

Sincerely yours,

ROBERT E. HAMPTON,
Chairman.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill as reported are shown as follows (existing law in which no change is proposed is shown in roman; existing law proposed to be omitted is enclosed in black brackets; new matter is shown in italic):

TITLE 5, UNITED STATES CODE

* * * * *

Chapter 89—Health Insurance

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§ 8901. Definitions

For the purpose of this chapter—

(1) "employee" means—

* * * * *

(5) "member of family" means the spouse of an employee or annuitant and an unmarried child under 22 years of age, including—

(A) an adopted child; and

(B) a stepchild, foster child, or recognized natural child who lives with the employee or annuitant in a regular parent-child relationship;

["or such an unmarried child regardless of age who is incapable of self-support because of mental or physical disability which existed before age 22;"]
 "or such an unmarried child regardless of age, who—
 "(i) is a student regularly pursuing a full-time course of study or training in residence in a high school, trade school, technical or vocational institute, junior college, college, university or comparable recognized educational institution and receives more than half his support from the employee or annuitant; or
 "(ii) is incapable of self-support because of mental or physical disability which existed before age 22;".

* * * * *

§ 8902. Contracting authority

(a) * * *

* * * * *

(j) Each contract under this chapter shall require the carrier to agree to pay for or provide a health service or supply in an individual case if the Commission finds that the employee, annuitant, or family member is entitled thereto under the terms of the contract.

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§ 8905—Election of coverage

(a) An employee may enroll in an approved health benefits plan described by section 8903 of this title either as an individual or for self and family.

* * * * *

§ 8906. Contributions

(a) [Except as provided by subsection (b) of this section, the bi-weekly Government contribution for health benefits for employees or annuitants enrolled in health benefits plans under this chapter shall be adjusted, beginning on the first day of the first pay period of each year, to an amount equal to 40 percent of the average of the subscription charges in effect on the beginning date of the adjustment, with respect to self alone or self and family enrollments.] The Commission shall determine the average of the subscription charges in effect on the beginning date of each contract year with respect to self alone or self and family enrollments under this chapter, as applicable, for the highest level of benefits offered by—

- (1) the service benefit plan;
- (2) the indemnity benefit plan;
- (3) the two employee organization plans with the largest number of enrollments, as determined by the Commission; and
- (4) the two comprehensive medical plans with the largest number of enrollments, as determined by the Commission.

[(b) The Government contribution for an employee or annuitant enrolled in a plan for which the biweekly subscription charge is less than twice the Government contribution established under subsection (a) of this section, is 50 percent of the subscription charge.]

(b)(1) Except as provided by paragraph (2) of this subsection, the biweekly Government contribution for health benefits for an employee or annuitant enrolled in a health benefits plan under this chapter shall be adjusted, beginning on the first day of the first applicable pay period of

each year, to an amount equal to the following percentage, as applicable, of the average subscription charge determined under subsection (a) of this section: 50 percent for applicable pay periods commencing January 1, 1974; 55 percent for applicable pay periods beginning January 1, 1975.

(2) The biweekly Government contribution for an employee or annuitant enrolled in a plan under this chapter shall not exceed 75 percent of this subscription charge.

(c) There shall be withheld from the pay of each enrolled employee and the annuity of each enrolled annuitant and there shall be contributed by the Government, amounts, in the same ratio as the contributions of the employee or annuitant and the Government under [subsections (a) and] subsection (b) of this section, which are necessary for the administrative costs and the reserves provided for by section 8909(b) of this title.

* * * * *

(g) The Government contributions authorized by [subsection (a) of] this section for health benefits for an annuitant shall be paid from annual appropriations which are authorized to be made for that purpose.

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